

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 98-801

December 15, 1998

NORTHERN UTILITIES, INC.,
Petition for Approval of
Firm Transportation Agreement
and Related Rates

ORDER

WELCH, Chairman; NUGENT and DIAMOND, Commissioner

I. SUMMARY

We approve Northern Utilities, Inc.'s (Northern) proposed contract filed October 15, 1998 but reserve prudence and ratemaking issues to Northern's next general rate proceeding.

II. PROCEDURAL HISTORY

On October 15, 1998, Northern filed a contract with a large industrial class customer for Commission approval pursuant to 35-A M.R.S.A. 703(3).¹ Northern requested expedited review of this matter.

With its filing, Northern submitted a Motion for Protective Order seeking confidential treatment for certain terms of the contract and supporting documents including cost information, financial analyses, and "identifying information concerning the Customer." The Hearing Examiner issued Protective Order No. 1 granting this confidential treatment on November 2, 1998.

The Advisory Staff conducted a technical conference with Northern by telephone on November 19, 1998 to further explore the basis for the contract and supporting financial analyses. On November 20, 1998, Northern filed a letter confirming that it now seeks only approval to enter the special contract and agrees to defer a determination of the appropriate ratemaking treatment for

¹Section 703(3) states in part:

It shall be lawful for a public utility to make a contract for a definite term subject to the commission's approval for its product or service, but the published rates shall not be changed during the term of the contract without the commission's consent.

the contract until Northern files for general rate relief. Northern also supplied a corrected confidential workpaper.

III. DISCUSSION²

Under the special contract, Northern will construct additional facilities and supply firm transportation service to the customer under particularized payment terms. Because these terms differ from Northern's filed rate schedules and terms and conditions, our approval is required for Northern to enter into the contract.

Northern asserts that the special contract is necessary to avoid having this customer bypass its distribution system and that the rate terms are designed to be consistent with certain portions of Northern's currently proposed rate design changes and reclassification. Once the initial contract term expires, the contract may be continued by the parties from year to year thereafter.

Advisory Staff has reviewed the contract, the supporting financial analyses, and the viability of the customer's alternative, and has delved further into the basis for this arrangement by questioning Northern in the November 19th technical conference.

By entering this agreement, Northern retains a large volume customer whose revenue contribution should benefit all other customers on Northern's system by reducing average unit cost of transportation service. Advisory Staff reviewed the financial analyses accompanying the contract to ascertain that the contract rates will exceed the long-run marginal costs of serving this load and that the threat of by-pass is credible. Staff also reviewed Northern's investment analysis to ascertain that future cash flows will exceed the cost of the investment.

We are satisfied that the contract meets our threshold for approval particularly because Northern seeks authority only to

² Because the specific contract terms, financial analyses and customer's name are being accorded confidential treatment, this Order will discuss the contract only in general terms. We will keep this docket open to consider further the question whether we will accord gas utility special contract terms confidential treatment in light of competitive forces existing in the gas industry.

enter the contract, reserving ratemaking issues for a later date.³ Moreover, because this contract is for transportation service, no concern arises as to the impact that the price reduction might exert on the reconcilable cost of gas adjustment.

Under these circumstances, we find this arrangement reasonable and approve it for purposes of 35-A M.R.S.A. § 703(3). We reserve all ratemaking and prudence issues for Northern's next general rate proceeding.

Dated at Augusta, Maine this 15th day of December, 1998.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: NUGENT
DIAMOND
COMMISSIONER ABSENT: WELCH

³ This is consistent with our recent order allowing Northern to revise its investment test on condition that shareholders rather than ratepayers bear system expansion risk. See Northern Utilities, Inc., Proposed Revision to Terms and Conditions to Offer Promotional Allowances and Modify Investment Test, Docket No. 98-654, Order (Sept. 11, 1998) at 2.